

Message Text

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E.O. 11652: N/A

TAGS: ENRG, IT

SUBJECT: NEGOTIATIONS FOR SALE OF SHELL TO ENI

1. BEGIN SUMMARY: NEGOTIATIONS BETWEEN ITALIAN STATE OIL COMPANY, ENI (ENTE NAZIONALE IDROCARBURI) AND SHELL ITALIANA FOR TAKEOVER OF SHELL'S ITALIAN INTERESTS ARE REPORTED TO BE NEAR CONCLUSION. PRICE OF THE TAKEOVER IS SAID TO BE IN VICINITY OF \$500 MILLION. OPERATION WOULD SIGNIFICANTLY STRENGTHEN ENI'S ROLE IN ITALIAN PETROLEUM MARKET: ABSORPTION OF SHELL'S CURRENT 15 PERCENT PORTION OF GASOLINE MARKET WOULD BRING ENI SHARE TO 41 PERCENT, WITH ESSO A FAR SECOND AT 17 PERCENT; ADDITION OF SHELL'S 4,860 SERVICE STATION OUTLETS WOULD GIVE ENI 29 PERCENT OF MARKET OUTLETS, FOLLOWED BY ESSO AT 12 PERCENT.
END SUMMARY.

2. RUMORS OF DISCUSSIONS BETWEEN THE TWO COMPANIES DATE BACK TO LAST SUMMER, FOLLOWING ENI DEFEAT BY INDEPENDENT MONTI IN BID FOR
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TAKEOVER OF BP ITALIANA. INITIALLY, ENI AND SHELL DOWNPLAYED THE

NEGOTIATIONS, STATING THAT THEY CONCERNED ONLY A MINIMAL SHARE OF SHELL'S MARGINAL MARINE AND SERVICE STATION OUTLETS. CURRENT NEGOTIATIONS, HOWEVER, PROVIDE FOR ENI ACQUISITION OF ENTIRE SHELL ITALIANA OPERATIONS, WITH POSSIBLE EXCEPTION OF ITS SUBSIDIARY CHEMICAL AND OFFSHORE DRILLING INTERESTS.

3. GLOBAL COST OF THE TRANSACTION REPORTED BY PRESS TO BE BETWEEN \$500 AND \$800 MILLION. ENI SOURCES INFORM US THE LOWER FIGURE WOULD BE MORE ACCURATE. OPERATION OF THIS MAGNITUDE IN ITALY PRESENTS CONSIDERABLE FINANCING AND FOREIGN EXCHANGE PROBLEMS, PARTICULARLY AT TIME IN WHICH GOI BALANCE OF PAYMENTS IS IN HEAVY DEFICIT. OUR ENI CONTACT STATED THAT THIS ASPECT IS PRINCIPAL REMAINING HURDLE TO SUCCESSFUL WRAPUP OF NEGOTIATIONS.

4. ENI IS PARTICULARLY INTERESTED IN GAINING CONTROL OF SHELL'S THREE ITALIAN REFINERIES (MILAN, LA SPEZIA AND TARANTO) WITH COMBINED ANNUAL CAPACITY OF 13 MILLION TONS, AS WELL AS GUARANTEES OF FUTURE CRUDE OIL SUPPLIES. A NUMBER OF PRESS REPORTS SUGGEST THAT CURRENT NEGOTIATIONS INCLUDE EVENTUAL PARTICIPATION OF A PRODUCING COUNTRY OIL COMPANY (IRAQ, IRAN AND LIBYA ARE AMONG THOSE MENTIONED) WHICH WOULD GUARANTEE REQUIRED CRUDE SUPPLY IN RETURN FOR SHARE IN ENI-ACQUIRED SHELL OPERATIONS. OUR ENI CONTACT DENIED THESE REPORTS, STATING THAT PRESENT NEGOTIATIONS ARE BETWEEN ENI AND SHELL ONLY.

5. SHELL ITALIANA EMPLOYEES, NUMBERING 3,800 ARE AGITATING OVER FEAR OF LOSS OF JOBS, BUT ACCORDING PRESS REPORTS HAVE RECEIVED NO SUPPORT TO DATE FROM THEIR UNION ORGANIZATIONS. NOTWITHSTANDING FINANCIAL AND LABOR PROBLEMS YET TO BE RESOLVED, OUR ENI SOURCE FELT THAT NEGOTIATIONS WOULD BE CONCLUDED "VERY SOON."

6. COMMENT: ENI'S PRESTIGE WAS CONSIDERABLY TARNISHED WHEN IT LOST OUT TO THE INDEPENDENT MONTI GROUP IN ITS BID TO TAKE OVER BP ITALIANA LAST MAY. MANY CRITICIZED BOTH ENI AND GOVERNMENT AT THE TIME FOR LACK OF INCISIVENESS BY THE NATIONAL FLAG COMPANY. A SUCCESSFUL CONCLUSION TO THE CURRENT NEGOTIATIONS WITH SHELL WOULD REDRESS SOMEWHAT ENI'S STANDING (BOTH PSYCHOLOGICALLY AND MATERIALLY), ESPECIALLY IN EYES OF POLITICAL LEFT, FROM WHENCE COMES MOST OF ENI'S SUPPORT.

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7. THE NEGOTIATIONS COME AT TIME IN WHICH GOI IS DRAWING UP A NATIONAL PETROLEUM PLAN, KEY OBJECTIVE OF WHICH IS TO GUARANTEE ENI A MORE IMPORTANT ROLE IN THE PETROLEUM SUPPLY PICTURE. VIGOROUS DEBATE ON THE PLAN IS FURTHER SHARPENED BY ARAB OIL CUT-BACKS, ENERGY CRISIS AND AUSTERITY MEASURES. ENI TAKEOVER OF SHELL IN THIS SETTING WOULD CONVENIENTLY PLAY INTO HANDS OF THOSE CALLING FOR A STRENGTHENED ROLE FOR THE NATIONAL FLAG COMPANY, AND DEAL A FURTHER BLOW TO THE POSITION OF THE INTERNATIONAL COMPANIES IN

THE ITALIAN MARKET, TWO OF WHICH (BP AND SHELL) WILL HAVE LEFT IT
IN LESS THAN ONE YEAR. VOLPE

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